

SBA Resources Add Zest to Franchise Special of the Day



Planning is the key to success with any small business, but it's especially important in the highly competitive restaurant industry. Many new restaurants close just a short time after opening. The successful ones take advantage of every opportunity.

The U.S. Small Business Administration's resources across the country can help new restaurant owners plan their success from writing a business plan to training employees. SBA's resources include:

- SBA district offices in every state and territory;
- Nearly 400 offices of SCORE – Counselors to America's Small Business; and
- More than 70 Small Business Development Centers on college campuses.

These professionals can help you with:

- Writing a formal business plan,
- Filling out loan applications to finance your business,
- Advice about managing and expanding your business,
- Finding opportunities to sell your goods or services to the government,
- Recovering from disaster, and
- Advice about compliance issues raised by other regulatory agencies.

The SBA also has programs for specific audiences, such as women and veterans.

Franchising

Restaurant franchises have been active participants in the SBA's small business programs for many years.

In the simplest form of franchising, while you own the business, its operation is governed by the terms of the franchise agreement. You capitalize on a trade name, trademark and/or support system provided by the franchisor, but operate as an independent contractor who makes a profit or takes a loss commensurate with your ownership.

For more information visit the SBA Web site at www.sba.gov/starting_business/startup/franchise.html; visit the Franchise Registry at www.franchiseregistry.com/; or call your local SBA office.

The SBA has a variety of loan-guaranty programs explained at www.sba.gov/financing. Our programs provide a key source of financing for small businesses that cannot qualify for loans from traditional sources.

7(a) Loan Guaranty Program

The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans made to small businesses. This enables lenders to provide financing to small businesses they would not otherwise consider. The eligibility requirements and credit criteria of the program are very broad in order to accommodate a wide range of financing needs.



The SBA can guarantee as much as 85 percent on loans of up to \$150,000 and 75 percent on loans of more than \$150,000. In most cases, the program has a maximum loan amount of \$2 million. SBA's maximum guaranty is \$1.5 million.

How it Works

You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, the lender forwards a copy of the application and a credit analysis to the nearest SBA office. If the lender uses one of the expedited processes, the application is submitted to a centralized processing center. After SBA approval, the lender closes the loan and disburses the funds. You make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan in a timely manner.

There are no balloon payments, prepayment penalties, application fees or points permitted with 7(a) loans. Prepayment fees (payable to SBA) during the first three years are required on loans with maturities of 15 years or longer.

Use of Proceeds

You can use a 7(a) loan to: expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt with compelling reason; finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings that will be occupied by the business borrower.

Terms, Interest Rates and Fees

The length of time for repayment depends on the use of the proceeds and the ability of your business to repay: usually five to 10 years for working capital and up to 25 years for fixed assets such as the purchase or major renovation of real estate or purchase of equipment (not to exceed the useful life of the equipment).

Collateral

You must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. Personal guaranties are required from all the principal owners of the business. Liens on personal assets of the principals may be required. However, in most cases a loan will not be declined where insufficient collateral is the only unfavorable factor.

Long-Term Resources for Your Small Business

If you're also looking to purchase property and construct a building on it or buy an existing building for your franchise, a Certified Development Company loan (504 Loan Program) may be right for you. The program provides long-term, fixed-rate subordinate mortgage financing to buy or renovate capital assets including land, buildings and equipment. Advantages of a 504 loan include:

- Long terms. Real estate loans can be 20-year term; heavy equipment loans 10- or 20-year term.
- Two-tiered financing. Lender finances 50 percent, SBA guarantees 40 percent. Borrower the remainder.
- Small borrower contribution allows other assets to be free of liens, available to secure other financing.
- All project costs can be financed including buying land and building construction, machinery and soft costs such as title insurance and appraisals.

For more information about long-term financing for your franchise or small business, visit our Web site at www.sba.gov/financing/sbaloan/cdc504.html.

All SBA programs and services are offered on a nondiscriminatory basis